



INTEGRA

Market Insights



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November 1st, 2013

Issue #22 - “Our Investment Approach”

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Investing : [5 Mental Mistakes that Hurt Investors](#) : Globe&Mail
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‘I skate to where the puck is going, not to where it has been.’
- Wayne Gretzky

‘If Past History was all there was to the game, the richest people would be librarians.’
- Warren Buffett

In the world of investing, it can be easy to fall into the trap of buying investments based on their past performance. It is human emotion to seek re-assurance in your decisions by focusing too much attention on ‘what have you done for me lately’. This is particularly the case with mutual fund investors as can be evidenced by fund flows going to the most performing funds, regardless of whether or not the management team’s philosophy fits the new economic realities.

For this month’s issue of Integra Market Insights, we will bring you behind the scenes to introduce you to what we do before and after client meetings, what we look for in portfolio managers and how we build custom portfolios for clients that fit with our overall economic outlook.

The Philosophy

After having determined risk tolerance and investment time horizons, the next step in building an investment portfolio is to establish the big picture of where we want to be invested and in which asset classes. Studies¹ have repeatedly shown that the most important determinant of portfolio risk & return is the selection of the asset class, or in other words, to invest in bonds, stocks or cash.

We feel that most portfolios need a bond or fixed-income component to ensure that investors always have the tools to ‘buy-low’ in the event of an unexpected price correction on the stock market.

This strategy of leaving some cash on the side-lines to strategically purchase in the event of a price correction is known as Tactical Asset Allocation, and is a fundamental tenant to our investment philosophy.

During my Master’s thesis, I personally researched the merits of this methodology and published my results in the attached paper, a condensed version of my thesis. I encourage those of you who are interested in learning more about this strategy, of those of you having trouble sleeping to give it a read! ☺

Following this strategy, the allocation to stocks and bonds may vary depending on our perception of the investment landscape. When we feel that the risks to the economy are great, we favour bond investing over stocks as this can provide investor protection. If we see opportunities in the investment landscape, we favour stocks to increase returns. This methodology abides by the most prolific investment adages, ‘Buy-Low, Sell-High’ and ‘Be greedy when others are fearful’ which are considered *contrarian* due to the fact that most investors are typically guided by their emotions, selling stocks after a market crash and purchasing stocks after they have already appreciated.

Once we have determined the desired tactical allocations to stocks and bonds, we then focus on the geographical component of where to invest. As a Canadian investor, our index represents less than 10% of the world’s assets and is largely focused on financials, energy and commodity stocks. For this reason, it is important that as investors we look past our local borders for opportunities and diversification.

With geographical allocations in mind, we can then begin to find the right funds to match our desired allocations. We sift through the almost 10,000 mutual funds we have at our disposal to find those that best ‘fit’ together. For example, let’s say we want to allocate 10% of our holdings to U.S. Dividend producing stocks.

We will look through that category of mutual funds and determine the individual funds that best fits our mandate.

¹ Brinson, G. P., Hood, L. R., & Beebower, G. L. (1986). “Determinants of portfolio performance”. *Financial Analysts Journal*, Brinson, G. P., Singer, B. D., & Beebower, G. L. (1991). “Determinants of portfolio performance II: An update”. *Financial Analysts Journal*, 47(3), 40.



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Experience, Tenure, Philosophy and fees are the most important factors in that decision. The mutual fund’s management team will then research the individual company’s securities (stocks & bonds) that fit into the category and select those that they feel will outperform. Our on-going responsibility is to monitor these funds and ensure that they continue to accomplish what we need from them.

The Outlook

We continue to believe that the amount of debts amassed by Canadian consumers over the last decade leave us vulnerable to economic slowdowns and interest rate increases. Should both these beliefs materialize, we will likely see a price correction of real estate prices in large urban markets, which would negatively impact Canadian banks. Further, this would likely lead to a drop in the CAD (Canadian Dollar) vs the greenback.

Fortunately, this presents an opportunity for us as investors as unhedged investment dollars held outside the country would benefit from this drop in the CAD, as when the dollars are repatriated, they are exchanged at a more favourable rate.

Given the modest recovery underway in US housing and manufacturing, we are encouraged that these fundamentals will bode well for the American economy as a whole.

Although the US stock market has already appreciated a great deal, we believe that this still presents a great opportunity for the Canadian investor and an important diversifier.

For these reasons, we will continue our efforts to add international holdings to our portfolio while allocating dollars to Canadian funds that are concentrated on non-financial investments. Examples of these holdings are the CI Blackrock Global Leaders fund and the CI Cambridge Canadian Equity fund.

We are cautious however and believe that the large bull market in the US is slowing down, and thus have revised downward our expectations of future returns from the US stock market. Our return expectation in all markets remains modest for 2014, likely falling in the high single-digit range.

Current Preferred Portfolio Holdings

Following a thorough review of our key holdings, we have introduced new funds into our preferred line-up of funds. This will help position the portfolio to be more in line with the changing economic landscape. We will wrap-up this month’s IMI with a look at our updated preferred holdings by category and their respective Year-To-Date performance and 5-year return figures. Have a great month!

Category	Fund	YTD	5-Year
Cnd Fixed-Income	TD Income Advantage	2.87%	6.40%
Diversified Bond	CI Select Income Advantage	4.33%	4.03%*
Canadian Balanced	CI Signature High Income	7.44%	12.15%
Canadian Dividend	TD Dividend Growth	14.52%	8.78%
Canadian Growth	CI Cambridge Cdn Equity	24.33%	13.57%
Global Growth	CI Blackcreek Global Leaders	33.29%	13.90%
Global Dividend	Dynamic Global Dividend	20.94%	8.80%
Global Risk Control	TD Global Low Vol	22.29%	N/A
Global Balanced	CI Signature Diversified Yield	8.39%	6.24%*

Past Returns are not indicative of future returns. * Only 3 Years Available